THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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European Industrial Situation.

MR. VANDERLIP, President of this Bank, returned about the middle of last month from Europe, after an absence of four months, during which he visited England, France, Switzerland, Italy, Spain, Belgium and Holland, meeting the political and industrial leaders, principal bankers and other important people in these countries. His conclusions have been given to the public through interviews and addresses more completely than they can be through this medium, but summarized they are to the effect that the most serious feature of the economic situation is not the destruction of wealth which took place during the war, but the disorganization and paralysis of industry which has resulted.

The expenditures upon the war, the destruction of property, the loss and waste of production, the inheritance of debt—these of themselves would make up a terrible total to be faced, but if pre-war conditions were otherwise unchanged, and every worker remaining was able and willing to step back into the place he occupied before the war, and resume his duties as before, the situation would be comparatively simple and easy. Six months after the signing of the armistice industrial reorganization scarcely has begun. The armies are partially demobilized, but great numbers of people are receiving unemployment doles. The expenditures of the Governments are on a great scale and except in England are being met largely by issues of paper money. The currencies are depreciated and in some countries in a state of hopeless confusion. The transportation service is broken down, the old channels of trade are obliterated, industrial organizations are scattered, raw materials are not at hand, credit is in a state of suspension. Finally, the whole social body is in a state of unrest and disorder, unwilling to go back to old conditions and unable to provide a new system of industry to take the place of the old. The result is that production, which under any system of society is necessary to life and order, is largely suspended, and the situation from week to week grows more serious.

Interest has centered upon the Peace Conference, each of the allied countries hoping for a settlement which would be of assistance in meeting their immediate needs. But Germany will be in need of assistance to get her own industrial life going, and all Europe requires aid to put her industries into position to exchange goods with each other and the outside world. The people are agitated and distracted by their immediate wants, their sufferings, and the insidious and demoralizing social doctrines which are preached on every hand. The situation must be treated as a whole, to the end that the industries of every country may be re-started, and the people made self-supporting. Help must be given from outside, and mainly by America, because no other country can supply the necessary materials and equipment upon the scale required. We must supply them upon long credit, arranging to cover the payments to sellers by the distribution of investment securities in this market.

This situation is to be regarded as an emergency which involves not only the fate of millions, who must be fed or they will starve, but of civilization itself. The gift of food is but a temporary expedient; relief is not accomplished until the helpless peoples are put in the way of providing for themselves. Work is as necessary as a means to right thinking and to social reconstruction as it is to production. If Europe is to go down in anarchy the rest of the world is likely to be engulfed.

The situation is also to be regarded as an opportunity to do the greatest service which one people ever have rendered to their fellowmen. Every humane consideration pleads for it. Moreover, it does not require succor that is beyond our resources or beyond our surplus. Our crops this year are much beyond our own requirements for consumption. Such raw materials as cotton, lumber, copper, steel and iron can be produced in this country far in excess of any home demand that is in prospect for the next year, and that is true of such equipment and machinery as Europe may want. Our own labor will be more fully employed and confidence in our own pro-

gress will be supported by a liberal policy toward Europe. The effect will be at once to safeguard our own social institutions and to promote the general welfare.

Concrete propositions are under consideration, and something on a scale adequate for the requirements will, it is expected, be presented soon after the Peace treaty is out of the way.

General Business Conditions.

The symptoms of business improvement which were visible in April became more pronounced in May, and at the beginning of June the doubt and pessimism which prevailed in mid-winter about general trade and industrial conditions has mainly disappeared. Nobody is any longer apprehensive of a sudden and heavy slump of merchandise prices, for it has been demonstrated that in most staple lines of goods of direct consumption the demand exceeds the supply. The reports of clearing houses and Federal reserve banks show that the volume of payments through the banks is greater than a year ago or at any previous time. Reports from the industrial centers indicate that the demand for labor is increasing, and that there is more talk about a prospective labor shortage than of unemployment. In all agricultural districts, but particularly in the South, there is a demand for men on the farms.

The prices of foodstuffs are now above the level of a year ago or of last year, and this fact is generally accepted as establishing existing wage scales for the present. If reports are correct as to the low production in prospect this year in eastern Europe and the demand for food which will be made upon America throughout the year to come, there is small chance for a lowering of prices. This is the strong factor in the price and wage situation in the United States.

Crop Prospects.

The outlook for a great crop and the assurance that it will bring high prices, is the chief factor in the optimism which evidently pervades the country. The cities which are most intimately related to the great agricultural districts see a great trade assured to them for the coming year, and this influence is giving confidence in all lines of business.

The crop season has been backward, with much rain and cold weather, but this has been favorable to winter wheat, which with the greatest acreage on record also shows a condition unsurpassed. The spring wheat acreage is lower than it would have been with more favorable weather for seeding, but the outlook now is for a total wheat yield of about 1,250,000,000 bushels. Soil conditions are favorable to all crops, and with seasonable weather from now on the yield in all lines may be up to any past record.

Reports upon cotton prospects are more pessimistic than for the grains, as the acreage is reduced, the plant late, the fields grassy, labor scarce and the boll-weevil already reported much in evidence, but it remains to be said that the stand is good and the soil conditions better in the southwest than for several years. Texas probably will grow a million bales more than last year. The general situation of the crop, however, together with the improved market for goods has resulted in advance in raw cotton of about 12 cents per pound in the last two months. The curtailment of production in cotton goods and the curtailment of acreage in cotton production both turn out to have been unfortunate, but the curtailment of acreage has been made up in some degree since the price started upward.

Recovery in Textile Goods.

Clothing and all textile goods and raw materials are in great demand and short supply. Dealers instead of being afraid of overstocks have become afraid that there will not be enough goods to go around and have been scrambling over each other to place their orders, with the result that the mills are in an assured position for the next six months at least. The labor situation has been stabilized upon the basis of 48 hours per week, instead of 54, with a wage increase of 15 per cent., which compensates the wage-worker for the loss of time. This reduction of hours in the workday will reduce production and increase costs, unless there is recourse to double shifts, a matter which is under consideration and will be tried out. The total increase of wages in the cotton mills since the beginning of the war is above 100 per cent.

Construction Work.

There is a great gain in house-building operations, indicating that the influence of high costs has been largely overcome. There is some revival in iron and steel and prices are firm. Producers believe that consumption will be resumed at the present level of costs when the public becomes convinced that the new level in steel is in harmony with the new level in everything else. Unfortunately, the steel business is largely dependent upon the railways, and the latter are suspended between heaven and earth, with their expenditures restricted to the lowest possible scale. The great crop in prospect, however, will provide a vast amount of traffic, and tax the facilities of the roads to their capacity.

Foreign Trade and Exchange.

The figures for our foreign trade in April show a balance in our favor exceeding even the unprecedented record of January. Exports were $714,573,428 against imports of $272,956,949. For the four months beginning with January, exports have aggregated $2,530,180,193 and imports $988,703,876, with a credit balance of $1,541,476,317. This situation clearly presents the problem of an unbalanced trade. How our foreign customers are to settle the balance is

our problem as well as theirs if we expect exports to continue. Excepting Spain and Switzerland European exchanges all show the dollar above par. The rate for francs is about 6.40 to the dollar and lira 8.40, par in each case being 5.18. The pound sterling is about $4.64½.

It must not be thought that foodstuffs comprise the larger part of these exports. For the month of April 1919, compared with April 1918, the classifications are as follows:

	1919	1918
Crude materials for use in manufacturing	$94,835,345	$52,474,140
Foodstuffs in crude condition and food animals	66,164,102	39,750,213
Foodstuffs partly or wholly manufactured..	226,430,466	152,990,431
Manufactured for further use in manufacturing..	73,763,482	85,144,906
Manufactured ready for consumption	217,914,173	158,766,058
Miscellaneous	1,015,631	708,768
Total dom. exports..	$680,123,199	$489,834,516
Foreign merchandise exported	34,390,229	10,608,390
Total exports	$714,513,428	$500,442,906

The figures for ten months are:

Crude materials for use in manufacturing	$968,472,818	$752,147,611
Foodstuffs in crude condition and food animals	566,227,039	325,692,157
Foodstuffs partly or wholly manufactured..	1,354,431,541	862,742,002
Manufactured for further use in manufacturing..	794,710,979	1,016,201,269
Manufactured ready for consumption	1,884,486,101	1,840,576,064
Miscellaneous	14,373,696	23,403,467
Total	$5,582,702,174	$4,820,762,570
Foreign	119,234,272	64,224,611
Total	$5,701,936,446	$4,884,987,181

Banking Conditions.

The money market is easier, with time loans at 5¼ to 5¾ per cent and call loans at 4½ to 6 per cent. Outside money has been coming into this market, indicating relaxation elsewhere, although the condition of the Federal reserve banks does not show any material reduction of loans. Their total earning assets on May 29 were $2,402,056,000, against $2,370,019,000 on December 6, the high point of last year. The total earning assets of these banks on May 31, 1918, were $1,301,390,000. In the six months preceding the armistice they increased about $1,000,000,000, and have since remained with little change.

This is the season of the year when the smallest amount of credit is employed in carrying foodstuffs, and other agricultural products, and a considerable liquidation on this account must have occurred. On the other hand the amount of government obligations owned by the member banks is about $1,000,000,000 greater than in December, and the amount of bills secured by government obligations held by the reserve banks is also greater. Indeed, it is important to note that the loans of the reserve banks upon other security than government paper are becoming negligible. They are less than a year ago, notwithstanding the great increase in all loans. The comparison is as follows:

	May 29, 1919	May 31, 1918
Bills discounted: Secured by Government war obligations	$1,802,893,000	$562,993,000
All other	186,499,000	334,364,000
Bills bought in open market	183,650,000	256,373,000
Total bills on hand.....	$2,173,042,000	$1,153,730,000

It will be seen that eliminating bills bought in the open market the reserve banks are not getting many commercial bills, although the Federal reserve system is founded in theory on commercial bills. The explanation of course is in the preferential rate given to loans on government securities. The commercial rate is so little used as to be ineffective as a market influence, and the preferential rate is so low as to furnish no restraint upon expansion.

Loans Should be Kept Down.

We have repeatedly given warning that the danger of financial reaction was not to be apprehended during the war, or as a result of the credit expansion for the war operations, but from speculative and industrial expansion after the war. While the war was on, the requirements of the Government put a restraint upon private credit except as it was used in forwarding Government operations and had Government support behind it, but with this restraint removed there is the possibility of inflation over and beyond that already occasioned by the war. The time for watchfulness and caution, and for safe-guarding our credit resources is now.

As a first proposition let it be said that any further expansion of credit beyond the great volume created to drive the country's industries at war pressure is unnecessary and undesirable. It was not absolutely necessary even for war purposes; we could have gotten along with a smaller use of credit if we had been more resolute in the curtailment of private consumption, but in view of the world situation a large degree of inflation was unavoidable. It has caused a great rise of wages and prices which does nobody any good except as it does other people harm, or in other words as it takes from one to give to another. Thousands of persons who are so situated that they cannot readily have their incomes increased to correspond with the general rise, are suffering injustice, and they are not, as a class, the rich people. That the painfully acquired savings

of millions of people shall be permanently depreciated, perhaps one-half, is something not to be accepted without thought or objection.

Now that the war is over this movement should not go farther. It is highly desirable that at least a start should be made toward deflation, for none but the most superficial observers can think that this wholesale depreciation of money values signifies real progress. There are, however, grave difficulties about a rapid process of deflation; they are so grave that rapidity is impracticable. The war was financed in part by an expansion of credit, as truly as though greenbacks had been printed for the purpose. The banks loaned credit to the people with which to buy the Government's obligations, and that credit went into circulation as purchasing power, and is still in circulation. Its use had the same effect upon wages and prices as paper issues would have had: the increase in available purchasing power being greater than the increase of goods or labor supply, prices and wages were forced up to a higher level.

If this new supply of credit was in the form of circulating notes it would be more generally understood that the only way to get back to former levels was by retiring the paper money, paying off the new issues and burning them. This would mean that the surplus earnings of the people were paying for the war in the same sense as though the war had been financed originally by self-denial. And so the only way the present inflated state of bank credit and inflated state of prices can be reduced is by having bank loans paid off and the credit retired.

Deflation Desirable, but at Present Impracticable.

It is evident that a drastic policy of loan reduction would interfere with the normal readjustment of industry and business. The Cunliffe Committee in England, appointed by the Government, reported that the scientific method of controlling the exchanges was by means of the discount rate, but the Government shrinks from applying that remedy. It prefers to compromise with the situation rather than raise the discount rate upon all borrowing at this time. We give a portion of the discussion by the Chancellor of the Exchequer in another place.

We are in the same position. The logical course for reducing this credit expansion and lowering the present price-level is by raising interest rates. This would set in motion forces which would reverse the process by which prices were rasied. Men would pay their debts, and contract their operations, and effective purchasing power would be reduced. The Federal reserve authorities evidently hesitate to adopt this policy, and we are not prepared to say that the time for doing so has come. For one thing the reserve banks have encouraged borrowing for the purpose of buying the Liberty and Victory bonds, and may well feel that the public is entitled to have time to work off these loans at the present interest rate. Furthermore it would be undesirable to have a reduction of loans which meant a forced curtailment of business. The country certainly can make good the losses of war more rapidly with its industries running than with them shut down; it is fundamental that production must be kept going. But after saying this it may be well added that the credit situation should be kept in hand. If there is any slack in the credit situation it ought to be taken up and conserved for the real needs of the country, and not absorbed wastefully or in mere speculation.

Demands on the Money Market.

The prospective demands upon the money market are large. The Secretary of the Treasury has stated that there will not be another general loan campaign, but as the Treasury must continue to borrow largely this means that he will be looking to the banks. Business is now reviving and prices have recovered from the decline which followed upon the armistice. An unprecedented amount of bank credit will be required to handle the year's crops, and finally, if this country is to respond to the duty to which it is called in world affairs it must supply a large amount of credit for that purpose.

In the presence of these impending demands cheap money is not to be expected, and any relaxation must be temporary. The country seems to have passed over the danger of general business prostration, and certainly this is true if we make the sales abroad which for every reason we ought to make. Under present conditions cheap money would be an anomaly anywhere, signifying that the country where that situation existed was not related to world affairs.

On the other hand, it should be possible to meet these demands without a further expansion of credit, and we believe that the banking authorities of the country should direct their policy to that end. It is inconceivable that these requirements, great as they may be, should exceed those of the war time, when every ounce of man-power and machine power was in active use. It was the efforts to drive the country beyond its industrial capacity which caused the present inflated situation. Therefore, it should be possible, without undesirable repression of business activities, to prevent a further expansion of loans. Every real need can be covered by the credit which is released from Government use.

Furthermore if there is any natural relaxation in the credit situation the slack should be devoted to a reduction of the re-discounts of the Federal reserve banks. These banks, although in a strong

position as compared with the central banks of Europe, are extended much beyond what should be considered their normal position, and that after mobilizing quite effectively the country's stock of gold.

Keep Speculation in Check.

The bankers of the country should recognize that the present state of credit expansion is abnormal and not to be accepted as permanent. The circulating credit which is afloat against government war securities in the banks is pure inflation. It belongs to the war financing, and it ought to be eliminated from the peace situation as soon as possible. The longer it remains a factor in the situation the more difficult it will be to eliminate it, and to go on from this level to a still higher degree of inflation, will weaken the position of the country and invite a disastrous reaction. Because the nations of Europe are helpless to avoid it is all the more reason why we should keep our own foundations sure. With this great crop to be sold at high prices, and with the abundant trade which is in prospect for the coming fall season, there should be surplus earnings and profits enough to accomplish a substantial amount of debt reduction without imposing serious restrictions upon enterprise, and the bankers should make it their policy to achieve this result. If the recovery of commodity prices and general state of prosperity this year is made the basis of more indebtedness, through land speculation and stock speculation, it may prove in the end to have been unfortunate that we did not have more drastic liquidation this year.

In view of the unsettled state of industry and social affairs the world over, the revival of industry must receive first consideration, but we repeat that this does not require that the present state of inflation should be accepted as permanent. The present cost of food-stuffs is the main influence in making the present general price-level and is the chief obstacle to a general decline. If European importations of food should fall to the pre-war volume the situation in this country would be materially affected, and a general readjustment would naturally be made.

Victory Loan.

Subscriptions to the Victory Liberty Loan amounted to $5,249,908,300, an over-subscription of $749,908,300. Every district but two oversubscribed its quota. Nearly 60% of the Loan or $2,663,154,850 was taken by those who subscribed for not in excess of $10,000 each. Subscriptions by districts, after allowing for allocation of credit from one district to another, were as follows:

District	Quota	Subscriptions	Percent.
New York....	$1,350,000,000	$1,762,684,900	130.57
Chicago	652,500,000	772,046,550	118.32
Boston	375,000,000	425,159,950	113.38
Philadelphia ..	375,000,000	422,756,100	112.73
Minneapolis ..	157,500,000	176,114,850	111.82
Cleveland	450,000,000	496,750,650	110.39
St. Louis......	195,000,000	210,431,950	107.91
Richmond	210,000,000	225,146,850	107.21
San Francisco	301,500,000	319,120,800	105.84
Kansas City..	195,000,000	197,989,100	101.53
Atlanta	144,000,000	143,062,050	99.34
Dallas	94,500,000	87,504,250	92.60
Treasury	....	11,140,300	.....
Grand Total..	$4,500,000,000	$5,249,908,300	116.66

Subscriptions up to $50,000 have been allotted in full; above that from 80 per cent. to 42.39 per cent.

The estimated number of subscribers to the Victory Liberty Loan was approximately 12,000,000.

Although not as great as for several of the previous issues, the showing is a satisfactory one. In this connection it should be said, that the experience of the New York district with the coupon books in three loans is very instructive. The amount of coupon books sold in the last campaign was approximately $50,000,000, slightly more than in either of the previous campaigns, and for the three loans the total was about $140,000,000. Evidently the subscribers to a great extent were the same people, so that the experience affords a successful demonstration of bond selling on the installment plan. The number of defaults was about 6 per cent.

The Railroad Problem.

The President's statement in his message to Congress that the railroads will be returned to their owners at the end of the present calendar year makes the solution of the railroad problem an immediate and imperative necessity.

Federal control dates from December 28, 1917. As compensation for the Government's use of the properties, the railroad companies were assured a rental equivalent to the average net operating income for the three years ended June 30, 1917. This rental, aggregating something over $900,000,000 was accepted as fair for the railroads as a whole, being the average of two good years and one very poor year—1915. Due to war conditions the Federal Railroad Administration was compelled to advance freight and passenger rates radically in the attempt to compensate for the rapidly rising cost of labor and materials. Principally as a result of such increased rates, total operating revenues increased no less than $865,000,000 over the year preceding. Due to increased operating expenses of nearly one and a quarter billions, the net operating income for the year fell short of the three-year average (the so-called standard return) by $236,000,000. Thus, during the first year of Federal control the railroads earned only 75% of the amount of the guaranteed rental.

Director General Hines has just appealed to Congress for the appropriation of a further sum of $1,200,000,000 to be added to the "Revolving Fund," the original appropriation of $500,000,000 having been exhausted several months ago. Mr.

Hines states that $250,000,000 is needed to meet the deficit incurred by the Government under its guaranty for the first four months of 1919, indicating that the loss is running at the rate of over $2,000,000 a day, and has already exceeded the loss for the entire year 1918. From these figures it appears that the roads are now earning only 16% of their standard return. It should not, however, be forgotten that earnings are always lowest during the winter months and it is reasonable to expect an improvement when the crops begin to move. Freight traffic, while less than in the first quarter of 1918, is 6% heavier than in the same months of 1916, but net earnings are nearly 80% less, proving that it is not so much the falling off in business as it is the increased costs of conducting the business that are responsible for this unfortunate showing.

All Operating Costs Higher.

Even if there had been no advance whatever in wages the operating expenses of the American railroads would have increased well over $500,000,000 as a consequence of enhanced cost of coal, rails and other materials. The advance in wages since our entry into the European war amounts to no less than $1,260,000,000. The wage bill now aggregates three billions—a figure slightly in excess of the gross earnings of all the roads in 1915. The number of employees in January, 1919, was 139,846 more than in December, 1917, although handling a smaller volume of business. In fairness to the Railroad Administration it should be admitted that the eight-hour day and the loss of skilled men to the army may account for a considerable percentage of this increase. At the same time it is a fact that a rapid increase in the number of employees has always been observed in countries passing from private to public operation.

The interest charges and dividend payments of the railways average nearly $65,000,000 a month. As the net earnings in the first three months of 1919 were less than $40,000,000, it is clear that the industry, considered as a whole, would be bankrupt were it not for the protection afforded by the governmental guaranties. Even if an improvement in earnings is recorded in the latter half of 1919 it hardly seems possible that it will be sufficient to make the railroads self-sustaining; therefore, unless Congress, in the meantime, enacts thorough-going protective measures the return of the railroads to their owners next December cannot be accomplished without a financial disaster of the first magnitude. That the market prices of railroad securities have recently been advancing can be attributed to the confidence of the financial community in the fairness of the measures likely to be adopted.

The restoration of the earning power of the railroads is of pressing importance, and a further increase in rates, much as it is to be deplored, appears inevitable. Outstanding railway securities must be safeguarded because they lie at the heart of the credit structure of the country and injury to them would react unfavorably on all business. New capital required for the expansion of the railway plant will not be inclined to venture into the field unless the capital already fixed there is given what investors would consider a square deal. Therefore, if private capital is to continue to furnish transportation facilities the legislation that Congress should adopt must aim to make that field inviting.

Plans Submitted for Solution of Problem.

Some fifty distinct plans dealing with this two-fold problem have been laid before the Senate Committee on Interstate Commerce. The plans which have attracted the most attention have been those proposed by the Interstate Commerce Commission, Director General Hines, the Association of Railway Executives, which represents about 92% of trackage of the country, the National Association of Owners of Railroad Securities, (the Warfield Plan), representing many billions of bonds and stocks, and the plan proposed by Mr. Plumb, counsel for the Railway Brotherhoods. In all these plans there are some important points on which minds are in substantial agreement. Only the Railway Brotherhoods advocate government ownership. Senator Cummins, the new Chairman of the Committee on Interstate Commerce, formerly an advocate of government ownership, now believes that the people of the country will get better transportation and at a less cost through private operation than through government operation. But private operation must be conducted under the strictest control. As the regulatory machinery has not been altogether satisfactory in the past, it is now freely recognized that there must be a reorganization of such machinery. The divided authority as between State and Federal bodies has often been a matter of genuine grievance to the railways and since railroad traffic is overwhelmingly interstate in character the paramount authority should unquestionably reside with the Interstate Commerce Commission. It is not proposed to put the State commissions out of business but rather to bring them into harmony with Federal authority and to this end the establishment of regional commissions has been suggested. The Interstate Commerce Commission has been a very much overworked body and it has necessarily occupied anomalous positions. A separation of its judicial from its executive functions seems in the line of progress. Its authority in the past has been almost without limit and it is now proposed to make it more directly responsible for the consequences of its decisions.

Federal control is responsible for the disfavor with which regional railway monopolies are regarded. The shipper is looking forward to a restoration of competition in service.

The Problem of Attracting Capital.

But it is generally agreed that a perfecting of the machinery of regulation is not enough to restore railroad credit sufficiently to attract new capital in the volume that the business of the country demands. It is on the question of the proper incentive that thought radically diverges. Senator Cummins believes that the return upon the capital invested in railways should be made certain through a government undertaking. In this view he is in accord with Director General Hines and Mr. Victor Morawetz. Opposed to a government guaranty are the plans of the Railway Executives, the Security Owners Association, the Interstate Commerce Commission, Hon. Paul M. Warburg and many others. Senator Cummins advocates a guaranty because he believes that a saving of at least $250,000,000 per annum can be attained by reducing the capital charge. He says, "Assuming but not conceding that the railways are worth 17 billions of dollars, a return of 4½% under a government guaranty would be ample."

There are, however, grave objections to the guaranty plan. One of them has been set forth with force by ex-Senator Root in these words: ". . . The same observation applies to the idea of a government guaranty. That means an attempt to assure a given income independently of rates instead of assuring rates subject to a limit of income. The inevitable result would be that no rates would be permitted beyond those necessary to make the guaranty good, and as the government must make the guaranty good there would be neither opportunity nor incentive for private enterprise in the management or development of railroads. The only real financial interest and the only active control stimulated by interest would be on the part of the government and this would lead inevitably to government ownership." Public sentiment is clearly opposed to government ownership and it would be regrettable if a plan were adopted which would lead the country unwittingly into it.

Fallacy of Cheap Government Credit.

Another weighty objection to the use of a guaranty has been well stated by Mr. Warburg: "It has been argued that through the use of the Government's credit, railroads would procure the necessary funds at a lower rate of interest. As against that, we must remember that the excessive use of the Government's credit tends to increase the rate at which a Government borrows. With us it would not only affect the rate of the Government Bonds to be issued in refinancing the outstanding railroad securities, estimated at $17,000,000,000, but it would add to the rate to be paid by our Government when some of our Liberty Loans in due course will mature and come up for renewal. Moreover, the incessant use of Government bonds, in order to finance the annual requirements for future railroad development and improvements, would have a disastrous effect upon the price and standing of our Government securities. Granting, however, that some economy could be secured by substituting the Government's borrowing power for that of the railroads, it would be insignificant when compared with the increase in cost of operation and the waste and inefficiency that inevitably would follow Government operation."

When we speak of the railroad problem what is chiefly meant is the restoration of railroad credit to the extent of enabling the railroads to raise the capital required to keep pace with the growth of the country. It is commonly believed that a billion dollars a year ought to be so invested. Clearly, for the Government to guarantee railroad securities is not to restore railroad credit. It is merely to substitute public for private credit.

Leading bankers have announced their opposition to the guaranty idea. They believe that the railroads can raise the needed capital without the use of such a dangerous agency, provided that the rates authorized by regulating bodies are not kept down to a starvation level. Between 1905 and 1910 new money was flowing freely into railway enterprises and investors were eager to take partnership risks. During those six years the roads of the United States, considered as a system, earned an average of 5⅜% on their property investment. Only in the post panic year of 1908 did the return fall below 5%. After 1910 regulation became much more repressive and the results show in the figures. Between 1911 and 1915 the roads earned an average of only 4½% on their property investment and the return exceeded 5% in but a single year. Partnership in railway enterprises has in consequence been unattractive and excessive borrowing has necessarily followed. To assume that the patient cannot recover without a surgical operation when the history of the case merely indicates under-nutrition is doubtful diagnosis.

Rate Making.

But what shall constitute the measure of a "reasonable rate?" The Railway Executives suggest that the statute itself should provide the rule of rate making and should require that rates should not only be reasonable but adequate and sufficient to enable the carriers to provide safe and sufficient service, to protect existing investment and to attract new capital.

The Association of Owners of Railroad Securities proposes a more definite rule for rate making. The Interstate Commerce Commission is to be instructed by act of Congress that in the adjustment of railroad rates, such rates,

as nearly as may be, shall produce not less than 6% on the aggregate property investment of the railroads grouped in each of the classification territories. No guaranty to a particular road is contemplated. No road would necessarily realize as much as 6% on its property investment account. The amount which it would earn would depend entirely upon its competing actively for business and as a result of efficient methods of operation. This plan has the endorsement of Mr. Elihu Root. In his language "it makes the railroads work for their living and assures them of a chance to earn it. The guaranty plan gives them their living whether they work for it or not. That is fatal to enterprise and to efficiency."

Senator Underwood introduced a bill in the closing hours of the last Congress embodying the principles of the Warfield Plan for rate making, while Senator Watson brought in a bill by the terms of which the Interstate Commerce Commission would be instructed to establish rates yielding 6½% on the property investment account.

Consolidations.

Not twenty years ago strong railway systems were absorbing smaller weaker lines so rapidly that public opinion became alarmed and steps were taken to check the movement. To-day it is everywhere agreed that the country would be better served by fewer systems. The Interstate Commerce Commission reports that there are 186 roads having total operating revenues of over one million dollars a year. Very many of these roads, to be sure, are subsidiaries of the larger lines. Senator Cummins is advocating that all the roads of the country shall be brought together into some 18 great systems so laid out as to be strongly competitive. Such compulsory consolidations would do away with the problem of the strong and the weak road, which now is a stumbling block to fair rate making. To increase rates so that the weak roads, which carry 25% of the country's business, will be self-sustaining, will give an excessive return to the strong roads which do 75% of the business. The Warfield Plan which contemplates a return of the roads to their owners with unchanged identities, meets this difficulty by proposing that the Government shall take for its own purposes in the furtherance of transportation, two-thirds of the excess of returns above 6% on the property investment, one-third remaining to the carrier as an incentive to efficiency.

Compulsory consolidations involve wholesale disturbance of existing securities, a strong argument against the plan. Congress should permit consolidations where the public interest is clearly benefited thereby, but more durable satisfaction would probably result when such mergers are slowly developed from the action of economic laws, instead of arising from the hasty work of a few experts commissioned to redraw the railway map of the United States.

The Future.

An optimistic view of the future of the railways seems justified. Discussion of the many phases of the problem is helping to crystallize thought as to the evils to be eliminated and the aims to be sought. Public opinion, unquestionably, is anxious to see the roads restored to their owners in full compliance with the promise contained in the President's Proclamation of December 26, 1917: "Investors in railway securities may rest assured that their rights and interests will be as scrupulously looked after by the Government as they could be by the Directors of the several railway systems."

The Bond Market.

Although the Victory Loan Campaign had reached its peak during the first week of May the general bond market was unusually active and strong with advances in practically all classes of bonds. The most encouraging feature, in view of the Victory Loan drive, was the advance in Liberty 4¼s, the Fourth Loan reaching 94.40 against 93.12 the week previous, which in round figures represented an increase of more than $100,000,000 in the value of the outstanding Fourth Loan. Foreign Government bonds were firm with Anglo-French 5s the favorite. Low priced rails were active, St. Louis-San Francisco Prior Liens and Missouri Pacific 4s advancing from two to three points, but they are still about 10% below the prices of two years ago. A block of $1,000,000 St. Louis-San Francisco Prior Lien 5s were reported to have changed hands at 75, which is an advance of one point above quotations ruling a week previous. Securities of railroads operating in the southwestern part of the United States were particular favorites on account of the oil development in the territory served. Industrial bonds were also in demand.

With the successful termination of the Victory Loan during the second week general bond prices continued to advance, with public utilities taking the lead. Liberty bonds declined fractionally as the result no doubt of investors disposing of the earlier issues in order to subscribe more liberally to the Victory Loan. Foreign Governments were firm and industrials advanced slightly. Rails operating in the oil country continued their advance and oil bonds were particularly buoyant, some of the issues registering an advance of more than fifty points from the low prices of the year.

Rising Prices.

These conditions and a broadening market continued during the third week, with traction issues and rails as the outstanding features. A wide buying of New York tractions was in evidence and the expectation that Congress would devise

a plan for returning railroad properties to private control encouraged general buying of the higher grade rails. Savings banks were reported as large buyers of "legals" and Liberties. In connection with Liberty issues it is interesting to note that the War Finance Corporation in its 1918 report shows purchases of about $378,000,000 Liberties and sales of about $273,000,000.

The close of the month recorded higher prices in practically all classes of securities and the general bond market experienced the most wholesome improvement during any week since November, 1914. Bankers reported a heavy demand for all classs of high grade issues from private investors and institutions. "Over the counter" business seemed to indicate that speculators who had taken profits out of the stock market during the past month were investing in bonds. Rails, industrials and public utilities continued to advance. Midvale Steel 5s reached 89⅝, several large blocks changing hands. The Liberty issues were very active, the Fourth 4¼s leading in volume. Several of the larger savings institutions were reported as buyers of Liberties in blocks running into six figures, these orders being stimulated no doubt by the large over-subscription to the Victory Loan. Victory Loan subscriptions reported by the Secretary of the Treasury reached $5,249,908,300, and as a result allotments of subscriptions over $50,000 were cut from 20% to 57.6%. The Loan was traded on the Stock Exchange for the first time on May 27 at prices ranging from 99.88 to 99.96, total sales for the first day reaching almost $1,500,000. In spite of the unsettled conditions in foreign exchange, foreign government loans continued steady.

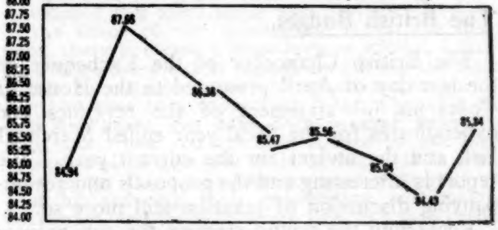
Municipal Bonds.

Municipal bonds have advanced steadily since the close of the Victory Loan and the demand on the Street seems to indicate that dealers are not only absorbing new issues at advancing prices but are competing for round blocks which have not found permanent lodgment in the security boxes of the large buyers who suffered cuts in their Victory Loan allotments. An indication of the strength of municipal bonds is evidenced by an offering of $2,500,000 Cleveland 5% Serials on a 4.50% basis as against offerings of Clevelands prior to the Victory Loan Campaign on a 4.70% basis. This is an advance of over four points on a thirty-year bond. On April 1 ten large blocks of standard municipals were offered at an average price to yield 4.70%; toward the close of May these same issues were quoted at an average price of 4.45%. New York State and City bonds have also advanced, the City issues being quoted on a 4.37% to a 4.40% basis. Buffalo and Westchester County have recently sold issues which are offered on a 4.25% basis.

Distribution of New Issues.

New offerings of all classes were promptly absorbed throughout the month and in many cases substantial advances above the offering prices were reported. The larger bond dealers are paying particular attention to distribution and as a result the new issues have not been sold within two or three hours after the public offering but the selling campaigns have been carried over a period of several days, with the result that the bonds are widely distributed among investors and institutions throughout the country and prices have accordingly advanced. Earlier in the year there was considerable criticism directed against the larger houses of original issue as the result of new issues declining on the Curb shortly after large over-subscriptions had been announced. Evidently a careful study of the situation has been made by the issuing houses in an attempt to keep new issues out of the hands of speculators and dealers who do not purchase for resale to their clients but who merely take a chance on market quotations.

Range of Market Since the Armistice.



	Average Price.	
October 1918	84.94	Before Armistice.
November.......	87.68	After Armistice.
December.......	86.38	Wide variety of issues—investment demand broadened.
January 1919....	85.47	Less active than previous month but large volume of business.
February	85.56	Steady contraction of business—prices firm.
March	85.04	Substantial volume of business—average prices slightly lower at end than at beginning of month—Approach of Fifth Loan responsible for small decline.
April...........	84.43	Liberty Loan during latter part of month probably responsible for lower prices.
May	85.84	

It is interesting to trace the general course of the bond market since the signing of the armistice in November. Forty selected issues, as reported by the *Wall Street Journal* were selling in October at 84.94. Immediately upon the signing of the armistice prices continued to advance until they reached a peak of 87.68 in November. This advance of almost three points was due largely

to competition among the various bond dealers in an endeavor to pick up attractive blocks for resale. In December the general investment demand broadened and the trading extended to a wider variety of issues, with prices declining to 86.38. January was less active, but the volume of business was substantial, with prices declining to 85.47. In February the volume of business declined, but prices advanced to 85.56. March was an active month but the average price declined toward the close of the month to 85.04 in anticipation of the Victory Loan. April experienced a decline to 84.43, although a good general business was reported by bond dealers up to the very opening of the Victory Loan Campaign. After the amount of the Victory Loan was announced as $4,500,000,000, and its success was practically assured during the early days of the campaign, a demand for general securities became evident and prices continued to advance throughout the month until an average of 85.84 was reached.

The combined average of forty active issues, as reported by the Wall Street Journal May 28 was **85.95**, which compares with **84.39** for April **28** and **84.48** for May **28, 1918.**

The British Budget.

The British Chancellor of the Exchequer on the last day of April presented to the House of Commons his statement of the revenues and expenditures for the fiscal year ended March 31 last, and the budget for the current year. The report is interesting and the proposals and accompanying discussion of taxation still more so.

Reckoning the pound sterling for convenience at $5, the total expenditures of the last fiscal year were $12,896,505,000, of which $4,445,105,000, or approximately one-third, were provided by taxation and the remainder by non-tax revenues and borrowing. Of the enormous sum produced by taxation about 80 per cent was raised by direct taxes upon wealth, including personal incomes and excess profits taxes, and 20 per cent by excise and customs duties. Inasmuch as the well-to-do classes pay a good share of the latter as well as all of the former, it is evident that so far as the laws can place the war burden it has been laid mainly upon the rich. Of course it would be a mistake to conclude that the class which is not assessed with direct taxes is unaffected by them. The consuming public, one way or another, contributes to all taxes. There is no way of helping that, and it would be much better if the fact was clearly understood by the many who are indifferent to the size of tax levies which do not strike them directly.

For the current year the Chancellor estimated expenditures at $7,174,550,000, and all revenues at $5,798,250,000, leaving $1,376,300,000, to be provided by borrowing. He proposed a reduction of the excess profits tax rate from 80 per cent to 40 per cent, an increase in the death taxes, an abandonment of so-called luxury taxes, an increase of taxes upon spirits and beer, and no change in the income taxes.

The public debt on March 31 last, was $37,-175,000,000, of which $6,750,000,000 is owed abroad. Against the debt it has loans to allies and dominions, aggregating $8,695,000,000. Of these loans Russia owes $2,840,575,000; France, $2,172,450,000; Italy, $2,062,600,000; Belgium, $433,895,000; Serbia, $93,215,000 and other allies $239,575,000. The Chancellor says that neither the present year, nor the next, nor perhaps the one after, will be entirely normal in receipts and expenditures, but he hazards an estimate of $3,830,000,000 as the probable total of expenditures in the future normal year.

Imperial Preference.

The Chancellor, who is a son of the distinguished Joseph Chamberlain, the author many years since of the scheme of a customs preference within the British Empire, announced the inauguration, so far as budgets of the United Kingdom were concerned, of the policy. He stated that only three Colonial products at the present time imported in large quantities would be benefited by the new proposals, these being tea, cocoa and rum. The United Kingdom supply of these products already come mainly from the dominions, and are taxed, but the new rates represent a reduction of one-sixth, while competing products pay as before. Other colonial products which will enjoy a like preference are coffee, sugar, dried fruits, tobacco and motor spirit. The following will enjoy a preference of one-third: moving picture films, clocks and watches, motor-cars and cycles, musical instruments. These products are not at present manufactured on a large scale in the colonies. The Chancellor said upon this point:

> But though the beginnings may be small, the measure of what I am inviting the Committee to do is not the amount of British Imperial trade which secures preference at this moment, but the opportunities for the development of that trade which I invite the Committee to open out. There is room for a vast extension. There never was a time when it was more important to the Empire as a whole or to us in particular that that development should take place. From the small beginnings of to-day I hope that many members of this House will live to see a really wide structure of inter-Imperial trade develop.

It will be seen that the first essay in the preferential policy is made by sacrificing present revenues, thus adding nothing to the selling price of the commodities in the English market. It is no trivial matter to sacrifice revenues at this time, but it is less serious than to raise prices to consumers. The critical test will come when the policy is broadened to the extent of including some degree of the latter. The Liberal party, headed by Mr. Asquith, stands opposed to the whole plan, and the Labor party is opposed to any increase of food costs.

Currency Inflation.

The Chancellor touched upon the interesting subject of currency inflation, stating that the estimated amount of legal tender money in the country at the beginning of the war equalled $1,070,000,000, and now exceeds $2,700,000,000. He said that at the date of the armistice the amount of currency notes outstanding equalled $1,455,000,000, and on April 23 equalled $1,745,000,000, and said that obviously this expansion must not proceed indefinitely. He called attention to the fact that at no time had there been a forced circulation of the currency notes; that is to say, the British Government at no time has paid out paper money as a means of making purchases or payments. It has borrowed money at interest to supply all needed purchasing power, and the currency notes have been paid out into circulation only as business men have called upon their bankers for them. He points out that so long as business men want currency and have balances due them at their bankers, they have a right to call for the notes, and nothing would be gained by refusing them. The banking business cannot continue, and all business would be paralyzed unless depositors are paid money when they ask for it. The direct remedy for inflation is to raise interest rates and cause a liquidation of bank loans and deposits, but this means a curtailment of business along with a decline of prices, and the Chancellor thinks this is too drastic a policy for the present. He says upon this point:

There is no reason why we should not, and there is every reason why we should, attack the underlying causes as quickly as possible. The first remedial measure is to reduce expenditure. (Cheers.) The second is to meet that expenditure as early and as fully as we can out of revenue. (Cheers.) The third is when we are obliged to borrow from real investors. The fourth is to repay Ways and Means advances. The fifth, and last, is to refund the immense volume of short-dated Treasury bills.

Measures like this can be rendered practicable only by the strictest national and individual economy. (Cheers.) I should like the Committee to consider for the moment what is the position. The hard, inexorable, economic facts are obscured by a fictitious appearance of wealth. (Cheers.) There is between two and three times as much legal tender money in circulation as there was before the war. The deposits of the joint stock banks have more than doubled. The position of those banks, judged by every approved criterion of sound banking, is stronger than ever it was before. Almost the whole of their additional deposits are covered by the best of all banking assets, shortdated British Government securities. These securities standing behind the deposits and standing behind the legal currency represent to a large extent not existing wealth, but wealth consumed in the operations of war which it must be our business to replace out of the exertions of the present. Both are drafts on future labour and the future creation of wealth. Then there is an immense reservoir of artificial purchasing power, and therefore diminishing in effect with each new increase.

The Profits-Tax and Capital Levy.

The Chancellor gives two reasons for cutting the excess profits-tax in two: first, that where four-fifths of the profits are taken as taxes the tax-payer does not practice economy as closely as is desirable in the national interest; the nation is interested in having capital accumulations increase. Second, the high levy upon profits deters proprietors from new enterprises in which there are risks of loss. They will stick to established lines in which profits are small but reasonably certain, rather than venture against such odds. This policy is not in the public interest, as it represses enterprises and retards industrial progress. This view is sustained by practical experience everywhere. It is the hope of something above ordinary interest returns which induces men to go into untried enterprises, and they cannot afford to take the risks of loss if in the event of success the larger part of the profits are taken by taxation.

The Chancellor, although favoring higher death duties, is decidedly against the proposed levy upon capital, as distinguished from income. He does not favor a tax which would not only take all of a man's income, but reach down into capital. Upon this he says:

If by a tax on capital is meant a small annual charge, then I think that that charge is as widely distributed and more fairly and conveniently raised in the shape of our income-tax. If, on the other hand, there is meant a large levy on capital, a large slice to be taken out of capital, then I beg the Committee to consider what the result might be. It is a bad time to propose such a tax when, for the past five years, you have been begging people to save, and when you are still obliged to ask them to save and to give you their savings. It is a bad time to tax those who have responded to your appeal by reducing their expenditure and making economies, and to let those go free who disregarded your instructions and who spent their money when it was not in the interest of the State, or in ways which were not in the interest of the State.

Consider a levy on capital apart from the circumstances of the moment. The death duties make such a levy and they make it once in a lifetime, at a time when the taxpayer receives an accession of income, and since they are levied only at death, and we do not all die at the same time, the process of making the valuation and of levying the tax is a task of manageable proportions. It can be done justly and fairly as between man and man, and it can be done with a minimum of evasion or of fraud. Since only a portion of the capital of the country is dealt with in any one year, the tax is paid without any disturbance of credit, and without any depreciation of securities to the detriment either of the State itself or of the home. If a levy was to be made on all the capital of the country at one and the same time by the tax collector all these advantages would be lost. To make an efficient valuation, fair as between man and man, and fair as between the revenue and the State, would exceed the power of any revenue administration in the world, and I make bold to say that ours is the best way. It would exceed their power at any time, and still more now, when the staff is still depleted owing to the war, and when they are charged with the overwhelming new responsibilities which the war has brought. It would be open to all the objections which arose and all the difficulties to which the valuation of the whole land of the country and the taxation of the land of the country gave rise under the Land Values Duty, and open to those objections on a vaster scale, because you would have to value not only real but

personal property. Since very few people would have money lying idle sufficient to pay their obligations under the tax, it would mean an immense disturbance of capital. Every one would be seeking to sell securities of one sort or another, and where all are sellers who would be buyers, and who shall measure the loss to the country by the depreciation of all securities (cheers), and who shall measure the loss to the individual through the same cause?

Silver Market Free.

The United States Government has relinquished control over exports and prices of silver, with the result that there was a runaway market for a few days, with sales as high as $1.19¾ per ounce, the highest in thirty years after which a decline occurred to $1.06 with later recovery to $1.10½.

The Treasury has completed the sales which it undertook to make to the British Government under the Pittman act, and does not at present contemplate further sales, although it may supply its own needs for subsidiary coinage by further melting of dollars. The demand for Asia has ceased for the moment, but purchases for Europe and South America have been taking current offerings. The course of silver depends upon India and China, especially the former. The Indian Treasury reserves at this time amount to about 25 per cent of the outstanding note circulation, and as the crop-moving season is now about over that government may abstain from purchases for a time. Indian crops for the last season have been short, and the trade balance is not so heavily in favor of the country as in previous years. Nevertheless, payments will have to be made to India, and it is a problem how they will be accomplished. Under the arrangement heretofore existing, the Indian Government has been supplying the Federal Reserve Bank of New York with rupee exchange at 35.73 cents to the rupee, which has been available to American merchants having to make remittances to that country. Now this fund is no longer available and as the Indian Government does not permit silver to be imported into India by private parties, and the United States Government does not allow gold to be exported from this country, the facilities for rupee remittances are very limited. Practically nothing is doing at present although a few have been made through London at about 40 cents.

Our need for rupee exchange is in payment for burlap, skins, tin, and other useful importations and the trade is entitled to some means of doing business, even though it takes gold.

International Labor Conferences.

The International Labor Conference, which was held at Paris as a subordinate body of the Peace Conference, formulated a program which does not appear to go very far beyond providing for the establishment of permanent headquarters in the same city with the League of Nations and the holding of an annual conference in some one of the countries belonging to the League. The first conference will be held in Washington in the fall of 1919. These conferences will discuss and propose measures to the governments of the countries represented, which the latter will be under obligations to refer to the proper legislative authority. The conference encountered difficulty here in the fact that in some countries, notably the United States, the authority dealing with international relations is not empowered to deal with all industrial subjects. In all cases, of course, the authority of the conference ends with a recommendation.

Efforts to establish any uniformity of industrial conditions throughout the world obviously must encounter very great obstacles, owing to the differences which exist in industrial development, etc. Progress is best made step by step in all countries. An attempt to bring the backward countries up abreast of the most advanced by general regulations would be impracticable, and the delegates from the United States gave notice that they would not consent to any agreement which would make the progress of labor in this country dependent upon what could be secured in other countries.

With these evident limitations upon international action, it remains to be said that international discussion and conferences upon subjects affecting the common relations and welfare are to be encouraged as calculated to reduce the causes of irritation and promote better understanding.

Labor's Complaint and Hope.

The report of the Labor Conference was presented to the Peace Conference by Mr. Barnes, one of the British delegates, and one of the ablest leaders of organized labor in the United Kingdom, who represents a Glasgow district in Parliament. In offering the report he made a preliminary statement in which he said:

> First of all, I want to say that we approached our work, as I am sure you would have had us do, in a sympathetic spirit and from a humane standpoint. Some of us knew our labor world at first hand, and we knew that there were many in it condemned to lives of toil relieved only by spells of compulsory idleness. In the old times, before the war, labor conditions were largely the outcome of blind chance. Age and want, that ill-matched pair, haunted the mind of the average workman in his working life, and we must remember that the laborer still lives in pre-war memories and is determined not to return to pre-war conditions. Those pre-war experiences of labor have laid upon the world a heavy burden and a great danger. They have produced a man who is class-centred, who regards work as a blessing, and who has been deluded into the belief that the less work he does the more there is left for his mates to do. This feeling, and the practice based upon it, is demoralizing to the individual and harmful to the community, but it is based on the fear of want, and can be eradicated only by security of employment under improved conditions.

In saying that, I am not casting stones at any class for existing conditions—it has not been conscious of cruelty—but rather the long arm of circumstance that has cast a devil's chain around the lives of some workers in some countries. I do not deny that some may rise to share in the pleasure of life, but nevertheless, it is true to say that the mass remain a misfit in their present condition, a source of concern to all lovers of their kind and a menace to the peace of the world.

It is this last aspect of the matter which makes labor regulations and improvement an integral part of the work of a Peace Conference. The question we had, therefore, to consider was how to provide the means whereby to promote a better mental atmosphere, as well as to produce improved material conditions.

Hitherto, it has sometimes been found that efforts at improvement in a country have been checked by the fear, or the plea, of competition from other lower-wage countries. I do not enter into the question as to the validity of that plea, although in parenthesis it may here be said that the highest-wage countries are not the least successful in world competition. I merely mention it as a factor in sometimes preventing improvements in countries of a relatively high standard of life.

For the first time in history, we are now seeking to get the co-operation of all concerned. States, employers, and workers engaged in a common cause and animated by a common desire to raise the standard of life everywhere.

This statement of purposes will command universal sympathy and approval. All the constructive forces of society have the desire to co-operate for the ends herein set forth. There are few who will not admit that with all our industrial achievements there is a lack of conscious and co-ordinated effort to secure the highest social results. The natural laws of the business world are beneficent in their tendencies. They cannot be set aside, but it is certain that by intelligent co-operation with them great improvement in social conditions may be accomplished.

The speaker has pointed to one of the most serious misapprehensions with which society has to contend, to wit, the widespread belief that there is only a limited amount of work to be done, and that after it is done, unemployment follows. He recognizes the fallacy of it and the unfortunate results which flow from it. No one change would accomplish so much as that of substituting for this idea in the minds of all workers a picture of the exchange of goods and services which is taking place. When it is seen that all the groups in the industrial system are engaged in supplying each other with the necessaries and desirable things, it will be understood that if these goods are produced in proper proportions there cannot be too many of them, because human wants are unlimited. If each group produces abundantly what the other groups want there will be plenty and comfort for all, and in no other way can plenty be provided.

A Common Misapprehension.

The laboring people, however, are not the only ones who entertain and act upon this delusion. The newspapers are filled with the utterances of leaders in the business and political world which convey the idea that there is only a limited amount of work to be done and of trade to be had, and that if one nation is prosperous another will suffer in consequence. If men of affairs entertain this view they should not be surprised or impatient if laboring men, whose opportunity for observation is limited, draw a similar conclusion. The principle is the same throughout industry. In the long run each individual and each country will consume in proportion to its production.

There should be no serious difficulty about co-operation between the representatives of Labor and Capital when they can agree at the outset that all policies must be judged with a view to their effects upon production, for if they promote production they will also bring leisure, comfort and individual advancement to the workers. What is produced must be distributed to consumers, and there is no large market but that furnished by the body of the people.

The subject of unemployment is one that has not received the attention it deserves in modern society. The interest of the wage-worker in regular employment is in accord with the general interest, for when workers are idle there is a loss of wealth and trade to the community which affects all. It is a problem which challenges the ability of society to organize itself effectively. The direct loss of productive power which occurs when great numbers of workers are idle is of itself worth looking after, but when there is added the consideration which Mr. Barnes presents, of the mistaken ideas which are engendered, the matter becomes one of great fundamental importance. In these modern times of highly organized industry the cause of unemployment is usually beyond the individual's control, and therefore becomes a proper subject of public interest and policy.

It should be recognized that the primary object of organized society is to promote in the most effective manner the welfare of all its members. Public policies are to be judged by what they accomplish to this end, and private and personal rights are subject to the same test.

Labor's Share of the Product.

The present movement, abroad and in this country, to raise money wages is declared in resolute language to mean that Labor is determined to hold a more commanding position and to secure for itself a larger share of the product of industry than it has had in the past. The declaration is often made without any definite idea of what Labor's share of the product of industry has been.

There never was a time when there was so much sympathy with Labor's aspirations as

now, but in order to have the co-operation that is desired it will be necessary to dispose of several fundamental errors which appear everywhere in current discussion. One of these which we have frequently commented upon, is the assumption that all the profits of industry, including those re-invested for its development, are taken from Labor and applied exclusively to the benefit of the owners. The truth is that profits which are left in the business for its development, or taken out of one business and put into another, are undivided earnings. They remain in employment, as part of the means or equipment with which industry is carried on, and are rendering service not only to the owners and employers, but to Labor.

We referred last month to the case of Endicott, Johnson & Company, shoe manufacturers, who, beginning with small capital many years ago, have accumulated a property valued at approximately $30,000,000, employing 12,000 persons and making 75,000 pairs of shoes per day. The partners of this company have had for their private benefit what they have taken out of the business and no more. The buildings, machinery and working capital which are employed in the business are undivided assets, which although standing in the name of the company are rendering service not only to the owners but to the employes and the public. Without this organization and equipment—or other employing organizations equipped in like manner—the employes would find their earning powers reduced, and the public would find shoes more costly. It is an incomplete view of industry which charges up all profits to employers or owners, regardless of what is done with them. The real division of product takes place at the point of consumption. What share of all the products of industry are consumed by owners of capital and what share by the workers? Profits which are converted into capital have the effect of increasing the supply of products on the market in the future, and the distribution and consumption of these must be taken into the account. It is contrary to sound public policy to view income converted to capital in the same light as income consumed for personal support and gratification.

Capital as an Aid to Production.

It cannot be gainsayed either that capital is a great aid to labor in production, or that labor is the chief beneficiary of increasing production. The great feature of modern industry is the increasing investment of capital in every line of industry. Our census reports show that in 1899 the amount of capital employed in manufacturing within the United States amounted to $1,770 for each person employed, in 1904 it was $2,117, in 1909 it was $2,488 and in 1914 it was $2,848.

This increasing investment gives greater capacity in industry and results in either higher money wages or cheaper goods. It means that production is increasing faster than the number of workers and consumers, which must result in a larger per capita distribution. What justification then is there for assuming that income converted into capital is serviceable only to the owners?

We have given the subjoined table of census figures before, but the showing is pertinent to this discussion, and ought to be reprinted frequently. The figures show the percentage of increase in each of three five-year periods over the figures of the preceding census, for the principal figures collected upon manufacturing:

	Percentage of Increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed	41.2	45.4	23.7
Primary horse-power	33.6	38.5	20.7
Wage-earners, average number	16.0	21.0	6.4
Total wage-payments	30.0	31.0	19.0
Value of products	29.7	39.7	17.3
Increase added by manufacture	30.3	35.7	15.8

The results for 1914 were undoubtedly affected by the slump in industry which occurred in five months of the year, after the outbreak of the war; nevertheless the table tells the story of the increasing part in production played by capital. It is an indispensable part. With increasing population there must be increasing efficiency in industry if the population is even to hold its own, to say nothing of improving its condition, and the most effective agency for increasing production is improved equipment.

The cost of transportation would be much higher than it is to-day but for the vast expenditures of capital in rebuilding and improving the railways in the last twenty years, and all industrial costs are lower than they might have been, for a like reason. Looking over the industrial situation it will not be easy to name investments which from the standpoint of the common consumer could have been spared.

Of course this is not denying that labor has been unjustly dealt with in many individual cases. This is undoubtedly true and injustice is always to be deplored, but it is not the whole story. The economic law has its own methods of righting wrongs and of bringing things back into balance. Earnings which are withheld from labor and converted into capital become means of production and as such confer benefits upon the entire body of workers. There is a natural relationship between the amount of new capital available for investment on the one hand and the progress of industry and general level of compensation to labor on the other hand. In short, there is a law of distribution which is automatic and inevitable in its operations.

It is true that capital saved and owned by the wage-workers would perform the same function, and it is highly desirable that the ownership of the industries shall be more widely distributed.

That, however, will naturally come about by the same evolutionary processes. As industry develops and the compensation of the wage-worker increases he comes surely into a more commanding position. The trend is bound to be in his favor if the productiveness of industry is increased.

Government Ownership and Management.

Another of the fundamental errors constantly encountered is the assumption that if the Government would take over certain functions now performed by private capital and private management, the public would gain thereby. This theory is probably not so prevalent in this country as it was before the war, but it is still a common declaration in labor platforms. The proposal assumes everything that is in dispute. There is no proof that any advantage to the public would be realized from having the Government take over the functions commonly urged upon it. On the contrary, so far as evidence of governmental operations is available it is usually against the presumption. Senator Cummins, who has never been accused of being a champion of past railroad management, is against government ownership, because, as he says, it costs the government more to do anything than it costs private parties to do it. This is true within the range of experience, and it is a sufficient reason against sweeping innovations of this kind.

Opposition to government ownership and management of industries, therefore, should not be considered as hostile to the interests of Labor. Government ownership and management will not be beneficent to Labor unless beneficial to the community as a whole. Nobody should be asked to take it on faith or on any other evidence than the results of cautious experiment. There are certain gains from highly centralized management, but there are offsets as well, and the experience this country has been having indicates that so far as government operations are concerned the estimates of the former have been exaggerated.

Money Wages.

Still another of the fundamental errors to be noted is that of assuming that the living conditions of the masses of the people can be improved by simply pushing up money wages and shortening hours of labor. It is possible that certain groups may improve their relative position in this way, making gains for themselves at the expense of other wage-earning groups, but such an accomplishment does not raise the general position of Labor. The workers in the iron and steel and textile industries have obtained wage-advances aggregating over 100 per cent since the beginning of the war, which is much more than the average advance in all the industries. The selling prices of steel and textile products have been advanced accordingly, and the workers in all the other industries are paying the bill.

The only gains that signify general benefits are those which represent an improvement in the standard of living for the masses of the people, giving more leisure and more of the comforts which they crave. These are gains for which society should unitedly strive, but wage advances alone do not bring them. Indeed, wage advances which simply put up prices on consumers are so disappointing that they result in embittering the wage-workers against the whole social order, because they feel that they have somehow been cheated out of what had been ostensibly conceded. If each line of industry will contrive to increase its production, thus having more to offer in the exchanges, it is evident that the workers in every line will have more for consumption.

The experience of industry during the war has shown that vast gains are possible simply by the full and well-organized employment of all the industrial forces. Scientific learning was mobilized for the assistance of industry more effectively than ever before, and permanent results will follow. Finally, the greatest influence for the improvement of industry and by this means for the improvement of social conditions will be found in more harmonious relations between employers and employes.

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